

## N E W S R E L E A S E

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### **The Internal Revenue Service determines Paid Family Leave benefits are taxable on federal income tax return**

SACRAMENTO – Wrapping up the first year of California's new Paid Family Leave insurance program, the Employment Development Department (EDD) is informing the public and recipients of benefits about an important decision from the Internal Revenue Service (IRS). The IRS has ruled that benefits received under the new Paid Family Leave insurance program are taxable for federal income tax purposes.

The approximately 60,000 recipients of the new benefit did receive a letter along with their checks advising them that the payments may be considered taxable by the IRS. That letter is now being followed up with additional efforts to inform claimants that the 1099's they receive next year will reflect the taxable income. The benefits, however, are not subject to California income tax.

Paid Family Leave was enacted through state legislation in 2002 (Senate Bill 1661). The program is part of the State Disability Insurance (SDI) program, and approximately 13 million workers covered by SDI are also covered for this benefit. Workers began contributing toward Paid Family Leave in January 2004 and became eligible to collect benefits on July 1, 2004.

Paid Family Leave pays up to six weeks of benefits in a 12 month period to workers who take time off work to care for a seriously ill child, spouse, parent or domestic partner, or to bond with a new child. Parents are eligible for benefits within one year of the birth, adoption, and/or foster care placement. To date, over 90 percent of the claims have been for bonding and 88 percent of all claims have been filed by women.

In the first five months of the program (July through November 2004), EDD has paid out \$108 million in Paid Family Leave benefits to 60,000 claimants. The EDD currently processes approximately 3,500 claims per week. The average weekly benefit amount has been \$407 (benefits range from \$50 to \$728 per week).

(more)

Paid Family Leave is part of and funded through worker contributions to the SDI program. To cover the initial cost, the SDI employee contribution rate increased by .08 percent on a worker's taxable wages in 2004 and 2005. The SDI taxable wage limit for 2004 is \$68,829; in 2005, the taxable wage limit will be \$79,418. Any earnings over this amount are not subject to SDI withholding.

The program does not provide job protection or return rights. However, claimants may be protected under the federal Family Medical Leave Act and the California Family Rights Act if they have worked for their employer for at least a year, and the business has 50 or more employees within 75 miles of their work site.

Individuals cannot receive Paid Family Leave while receiving SDI, Unemployment Insurance, or Workers' Compensation benefits.

Workers and employers can find additional information about this program on EDD's Web site at [www.edd.ca.gov](http://www.edd.ca.gov), or by calling toll-free 1-877-BE-THERE (Spanish: 1-877-379-3819). TTY access is available at 1-800-563-2441.

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